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File No. T/1 1/2/1  
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Mr R Hayward  
National Passenger Manager  
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Dear Ross

### **English Electric Unit Refurbishment Programme**

As you are aware this Council agreed as part of its proposed 2002/03 budget to continue the level of funding invested in the Ganz Mavag refurbishment programme to enable a start on refurbishing the English Electric units upon completion of all the Ganz units. Later an offer of additional funding was made by Transfund which would permit an accelerated refurbishment programme. This funding was conditional upon this Council being able to fund its share of the costs and a number of other matters related to security of the investment.

The Council considered this offer at its meeting of 13 June, and subject to both the Transfund conditions and some further conditions it felt were necessary, approved the accelerated programme. Although I have given you copies of these resolutions I would now like to confirm the conditions which will relate to this project, to get your agreement that they are acceptable to Tranz Rail Ltd, and to request a draft programme for the work.

The conditions imposed by Transfund New Zealand were:

- A guarantee that any up-front public investment to refurbish rail rolling stock will be applied directly to the nominated asset, and not be redistributed away from the public transport service by way of sale, retirement of the relevant service or asset, or appointment of a new operator.
- The whole of life costs of rolling stock will be incorporated in the future contracts once contracts are negotiated with new service providers in Auckland and Wellington.
- The service provider will agree to provide the relevant regional council with full disclosure of all relevant costs and revenues associated with the service. These will specifically include depreciation, maintenance, and refurbishment costs.
- The Regional Council and service provider in each contract shall agree to independent review of refurbishment costs (including the benchmarking of these costs to

comparable international results, and/or to appropriate statistical indices) where the service provider is the sole supplier of a service.

The conditions imposed by WRC are:

- Tranz Rail Ltd accepting the terms and conditions set by Transfund New Zealand and ratified by them through a capital investment contract with the Council including a 50% contribution by Tranz Rail Ltd for refurbishment, in consultation with Transfund New Zealand.
- The Council's investment in rolling stock refurbishment being appropriately protected for as long as the value of that investment remains.
- Confirms that all future carriage refurbishments be subject to the conditions set out under recommendation (2). (Transfund conditions)

We have instructed our legal advisor to draft a contract document for the refurbishment programme which embodies the conditions set out above. I will forward this to you for consideration in due course.

In the meantime I would be grateful if you could provide me with confirmation that Tranz Rail Ltd accepts in principle the conditions set out above, and a draft programme for the refurbishment of these units which includes:

- The cost per set (2 or 3 car).
- Suggested timetable for the completion of each set.
- The contractor who is to carry out the work.
- The proposed "brief" to the contractor.
- Any "audit" function to ensure compliance with the brief.
- Your suggestion to meet the conditions imposed by Transfund and this Council.

When we have received your views on these matters and a draft contract is available I suggest that we put a morning aside to jointly work through the issue in the hope we can quickly arrive at a consensus.

Yours sincerely



DAVE WATSON  
Divisional Manager, Transport